

GE INDUSTRIAL OF PR, LLC

Financial Statements

December 31, 2018

(With Independent Auditors' Report Thereon)



KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

Board of Directors
GE Industrial of PR, LLC:

We have audited the accompanying financial statements of GE Industrial of PR, LLC, which comprise the balance sheet as of December 31, 2018, and the related statements of income, comprehensive income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. Generally Accepted Accounting Principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GE Industrial of PR, LLC as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with U.S. Generally Accepted Accounting Principles.

KPMG LLP

San Juan, Puerto Rico
September 20, 2019

Stamp No. E391980 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

GE INDUSTRIAL OF PR, LLC

Balance Sheet

December 31, 2018

Assets

Current assets:

Cash and cash equivalents	\$ 14,122,440
Accounts receivable:	
Affiliates	2,116,507
Trade and other receivables	79,350
Total accounts receivable	2,195,857
Inventories, net	7,204,902
Prepaid expenses	980,507
Loans receivable from General Electric Company	264,228,480
Loan receivable from affiliated company	120,000,000
Total current assets	408,732,186

Deferred tax asset	7,615,009
Equipment and leasehold improvements, net	708,903
Total assets	\$ 417,056,098

Liabilities and Member's Equity

Current liabilities:

Accounts payable:	
Trade	\$ 16,153,957
Affiliates	7,342,206
Total accounts payable	23,496,163
Accrued expenses	8,931,405
Pension and postretirement liabilities	748,492
Income tax payable	852,066
Total current liabilities	34,028,126
Pension and postretirement liabilities	23,035,453
Total liabilities	57,063,579

Member's equity:

Member's interest	129,081,200
Retained earnings	265,700,893
Accumulated other comprehensive loss	(34,789,574)
Total member's equity	359,992,519

Commitments and contingencies	
Total liabilities and member's equity	\$ 417,056,098

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Statement of Income

Year ended December 31, 2018

Net sales	\$ 68,915,154
Cost of sales	<u>29,501,917</u>
Gross profit	39,413,237
General and administrative expenses	<u>18,670,728</u>
Operating profit	20,742,509
Interest income	615,879
Other Income	<u>370,274</u>
Income from continuing operations before income taxes	21,728,662
Income tax expense	<u>619,769</u>
Income from continuing operations	21,108,893
Discontinued operations (note 12):	
Income from operations of discontinued industrial solutions division net of taxes (including gain on disposal of \$132,022,563), net of taxes	<u>154,312,381</u>
Net income	\$ <u><u>175,421,274</u></u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC
Statement of Comprehensive Income
Year ended December 31, 2018

Net income	\$ <u>175,421,274</u>
Other comprehensive income, net of tax:	
Defined-benefit pension and postretirement plans:	
Net actuarial gain	9,516,733
Amortization of prior service cost included in net periodic pension cost	<u>14,082</u>
Other comprehensive income	<u>9,530,815</u>
Comprehensive income	\$ <u><u>184,952,089</u></u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Statement of Changes in Member's Equity

Year ended December 31, 2018

	Member's interest	Retained earnings	Accumulated other comprehensive income (loss)	Total Member's equity
Balance, December 31, 2017	\$ 129,081,200	184,116,764	(44,320,389)	268,877,575
Net income	—	175,421,274	—	175,421,274
Dividends paid	—	(190,000,000)	—	(190,000,000)
Settlement of accounts payable to affiliates	—	96,162,855	—	96,162,855
Other comprehensive income	—	—	9,530,815	9,530,815
Balance, December 31, 2018	<u>\$ 129,081,200</u>	<u>265,700,893</u>	<u>(34,789,574)</u>	<u>359,992,519</u>

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC
Statement of Cash Flows
Year ended December 31, 2018

Cash flows from operating activities:

Net income	\$ 175,421,274
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	3,923,046
Deferred tax expense	2,703,616
Gain on Sale of Industrial Solutions Business - discontinued operations	(132,022,563)
Gain in property damage insurance claim	(7,657,827)
Decrease (increase) in:	
Accounts receivable from affiliates	(23,098,326)
Trade and other receivables	1,839,304
Inventories	(437,473)
Prepaid expenses	129,478
Increase (decrease) in:	
Accounts payable – trade	16,983,845
Accounts payable to affiliates	20,934,003
Accrued expenses	8,357,854
Income tax payable	852,066
Pension and post retirement liabilities	(5,557,800)
Net cash provided by operating activities	<u>62,370,497</u>

Cash flows from investing activities:

Capital expenditures	(15,985,993)
Loans to General Electric Company	(54,637,376)
Proceeds from property damages insurance claim	7,847,442
Proceeds from sale of Industrial Solutions Business	<u>195,821,143</u>
Net cash provided by investing activities	<u>133,045,216</u>

Cash flows from financing activities:

Dividends paid	<u>(190,000,000)</u>
Net cash used in financing activities	<u>(190,000,000)</u>
Net change in cash and cash equivalents	5,415,713

Cash and cash equivalents, beginning of year

8,706,727

Cash and cash equivalents, end of year

\$ 14,122,440

Supplemental cash flow information:

Income taxes paid	\$ 1,300,000
Change in liability for pension and postretirement benefits, net of tax	\$ (9,530,815)
Settlement of accounts payable to affiliates	\$ 96,162,855

See accompanying notes to financial statements.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

(1) Nature of Business and Summary of Significant Accounting Policies

GE Industrial of PR, LLC (the Company) was organized on November 6, 2006 under the laws of Puerto Rico. The Company is a limited liability company and up to March 22, 2013 was owned by Caribe GE International of Puerto Rico, Inc. and Caribe GE Manufacturing, LLC, which are ultimately owned by the General Electric Company (General Electric). On March 22, 2013, Caribe GE International of Puerto Rico, Inc. purchased the common stock owned by Caribe GE Manufacturing, LLC and became the sole owner of the Company. The Company, until 2018, was engaged in the manufacturing of electrical products through a number of manufacturing plant facilities, which were located at different municipalities in Puerto Rico. Effective June 30, 2018, the Company's industrial solutions division was sold (See note 12). At December 31, 2018 the Company manufactures its products in a manufacturing facility located in Añasco, Puerto Rico.

The accounting policies conform to U.S. Generally Accepted Accounting Principles. The significant accounting policies followed by the Company are the following:

(a) Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of equipment and leasehold improvements, valuation of inventories, deferred tax assets, environmental liabilities, and assets and obligations related to employee benefits.

(b) Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At December 31, 2018, the Company had no cash equivalents.

(c) Inventories

Inventories consist primarily of raw materials and finished goods and are stated at the lower of cost, using the first-in, first-out method, or realizable values, net of obsolescence reserve, amounting to \$7,204,902 at December 31, 2018.

(d) Depreciation and Amortization

The cost of equipment is depreciated using an accelerated method over the estimated useful lives of the assets. Improvements to leased premises are amortized on the straight-line method over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

(e) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

During the period the Company adopted the new *Accounting Standards Update No. 2015-17 Income taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which changes the classification of the deferred income tax to long term classification.

(f) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(g) Revenue Recognition

During the period the Company adopted the *Accounting Standard ASU 2014-09 Revenue from Contracts with customers (Topic 606)*, which eliminates the transaction and industry specific revenue recognition guidance and replaces it with a principle-based approach. The Company had no significant impact due to the adoption.

The Company recognizes revenue from the sale of products at a point in time when our customer obtains control of the goods, which is no earlier than when the customer has physical possession of the product, and collectability is reasonably assured. Our billing terms for these point in time sales generally coincide with delivery to the customer.

(h) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

(i) Pensions and Other Postretirement Plans

The Company participates in a contributory defined-benefit pension plan (the Plan) covering the Company's employees and other General Electric employees in Puerto Rico. The Company records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates, and healthcare cost trend rates. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

(2) Inventories

At December 31, 2018, inventories consist of the following:

Raw materials	\$ 980,067
Work in process	29,153
Finished goods	7,343,282
Reserve for slow-moving or obsolete inventory	<u>(1,147,600)</u>
	<u>\$ 7,204,902</u>

(3) Equipment and Leasehold Improvements, Net

Equipment and leasehold improvements at December 31, 2018 consist of the following:

Machinery and equipment	\$ 6,926,703
Less accumulated depreciation and amortization	<u>(6,217,800)</u>
Equipment and leasehold improvements, net	<u>\$ 708,903</u>

The estimated useful life of machinery and equipment ranges from 5 to 15 years. Amortization of leasehold improvements is provided over the term of the lease or the useful life of the asset, whichever is shorter. Depreciation and amortization expense for the year ended December 31, 2018 was \$3,923,046.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

(4) Settlement of Intercompany Balances

During the period, General Electric Company announced the sale of its Industrial Solutions business, a major division of the Company's manufacturing operations to ASEA Brown Boveri (ABB), a Swiss-based engineering company. The effective date of the transaction was June 30, 2018. (See note 12). In connection with the sale, the Company settled the Industrial Solutions intercompany payable due General Electric Company of \$96,162,855 as a credit to retained earnings.

(5) Intercompany Transactions

All sales are transacted with General Electric and affiliates. Significant transactions with General Electric and affiliates during the year ended December 31, 2018 are summarized as follows:

Sales	\$ 165,002,110
Purchases	5,597,814
Settlement of intercompany balances	96,162,855
Allocated general and administrative expenses	6,854,842
Corporate assessments	165,625
Interest income	3,033,385
Royalty expenses	5,245,039

Loans receivable from General Electric represent advances with quarterly repayment terms, which at December 31, 2018 amounted to \$ 264,228,480. The interest rate on the loans changes on a weekly basis based on the commercial paper rate. As of December 31, 2018, the loans had a rate of 2.24%. The loans were collected on January 2, and January 3, 2019 for the outstanding balance at December 31, 2018.

The loan receivable from an affiliated company is an unsecured revolving line of credit available for a term of six months that expired February 12, 2018 but was extended to February 12, 2019 (the scheduled termination date.) The loan bears interest at USD Libor rate adjusted by a credit spread determined by the affiliate's credit score. At December 31, 2018, accrued interest on the loan amounted to \$586,773. The affiliated company may, at its option, at any time, without premium or penalty prepay in whole or in part any amount of the principal outstanding with all accrued interest thereon.

(6) Income Taxes

The Company along with other affiliates in Puerto Rico (collectively known as the Companies) has been granted a tax exemption decree (the Grant) pursuant to the provisions of the Puerto Rico Tax Incentives Act No. 135 of 1998 (Act No. 135) for a period of ten (10), fifteen (15), twenty (20), and twenty-five (25) years depending on the municipality the exempted businesses is located. The effective date of the tax exemption was January 1, 2009.

On September 25, 2017, General Electric Company announced the sale of its Industrial Solutions business, a major division of the Company's manufacturing operations to ASEA Brown Boveri (ABB), a Swiss-based engineering company. The effective date of the transaction was June 30, 2018. (See note 12). On June 22, 2018, the Company filed with the Office of Industrial Tax Exemption and Amendment of Tax exemption Grant requesting to carve out of the grant and approve the sale and transfer of the Industrial Solutions business to ABB. Also, the Company along with other affiliates requested to be carved out of the

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Grant requesting that all terms and condition of the original Grant remain in full force and effect. The request was approved by the Office of Industrial Tax Exemption on July 16, 2019, effective June 30, 2018.

Under the Grant, the Company's manufacturing operation is subject to an income tax rate in a range between 2% and 7%, subject to compliance with certain employment requirements. Dividends and liquidating distributions of the Company's earnings and profits from industrial development income are not subject to income taxes or to any withholding tax at source.

In addition, the Company's manufacturing operations are exempt as follows:

- 90% from municipal and Commonwealth taxes on real and personal property.
- 60% from license fees, excise, and other municipal taxes, levied by any ordinance of any municipality.
- 100% from excise taxes imposed under Subtitle B of the Puerto Rico Internal Revenue Code, to the extent provided in Section 6(c) of the Act.

On August 19, 2004, the Companies' and the Secretary of the Treasury entered into a closing agreement pursuant to Section 6126 of the Puerto Rico Internal Revenue Code of 1994, as amended, whereby the Companies are entitled to the income tax overpayments resulting from reallocations made by the Internal Revenue Service's (IRS) to taxable years 1983 through 1999, pursuant to Section 482 of the U.S. Internal Revenue Code. The income tax overpayments will be available as credits to the Companies or their successors in interest against any future liability for Puerto Rico income taxes, provided that such credit may not be used to reduce the total Puerto Rico income tax liability by more than 50% for any given year.

The expected income tax expense differs from the actual tax benefit mainly due to the reduction in income taxes resulting from the Puerto Rico Tax Incentives Act No. 135 of 1998, tax credits available per closing agreements with the Secretary of the Treasury, and other tax credits provided by Act 73 of May 28, 2008.

On December 10, 2018, the Commonwealth of Puerto Rico amended the provisions of the Code. Among other changes, the amended Code decreases the maximum corporate income tax rate from 39% to 37.5% and the alternative minimum tax (AMT) rate from 30% to 23%. For corporations with a volume of business under \$3 million, the AMT will be the greater of \$500 or 18.5%. Also, the amended Code imposes new limitations on allowable expenses for AMT purposes in certain situations.

In addition, the amended Code provides for an optional tax calculation for corporations whose source of income substantially arises from services subject to withholdings at source. Such corporations may elect to pay their income taxes at a flat rate on gross income ranging from 6% to 20%.

Furthermore, the amended Code provides for certain changes in tax deductions and credits, including intercompany expense allocations, meals and entertainment, travel expenses, charitable contributions and foreign tax credits, among other. Also, the net operating loss carryforward deduction limitation increases from 80% to 90% of net taxable income. These changes are effective for taxable periods commencing after December 31, 2018.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Total income tax expense recorded by the Company for the year ended December 31, 2018 was allocated as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Continuing operations	\$ 274,313	345,456	619,769
Discontinued operations	2,343,207	2,358,360	4,701,567
Income tax	<u>\$ 2,617,520</u>	<u>2,703,816</u>	<u>5,321,336</u>

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2018 is presented below:

Deferred tax assets:

Liabilities for pension benefits	\$ 710,640
Inventories, principally due to reserve for inventory obsolescence	22,952
Other general and environmental reserve	137,098
Depreciation expense difference between book and tax basis	53,862
Tax credits granted under Act No. 73 of 2008	<u>6,925,418</u>
Deferred tax assets	7,849,970

Deferred tax liability:

Pension, postretirement and medical benefits	<u>(234,961)</u>
Net deferred tax assets	<u>\$ 7,615,009</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences at December 31, 2018. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Puerto Rico Tax Code (the Code) requires that entities exceeding a predefined volume of business submit audited financial statements for filing with local taxing authorities. This predefined volume of business is determined on a "controlled group" basis, as defined in the Code. Among the requirements imposed by the Code, entities that are part of a controlled group should file consolidated or combined audited financial statements, including a consolidating schedule presenting the financial condition and

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

result of operations of each entity. The Department of the Treasury of the Commonwealth of Puerto Rico issued Administrative Determination No. 1407 to provide an alternative requirement in lieu of the consolidated financial statements.

For tax year 2018, entities required to file audited financial statements with their income tax returns may file statutory audited financial statements and, in lieu of providing audited consolidated statements, should disclose in the notes to the statutory audited financial statements the names of related entities engaged in active trade or business in Puerto Rico, as defined by the Code. The following related entities are engaged in active trade or business within Puerto Rico:

- GEA Caribbean Export LLC
- Caribe GE International of Puerto Rico, Inc.
- GE Manufacturing of PR LLC
- General Electric Company
- GE Betz International, Inc.
- Caribe GE International Energy Services, Corp.
- General Electric International, Inc.
- GE Healthcare Puerto Rico Corp.
- General Electric Capital Corporation of Puerto Rico, Inc.
- Panametrics Caribbean, Inc.
- Caribe GE Engineering Services, Inc.
- Alstom Caribe, Inc
- Amersham Health Inc.
- Qualified Contractors, Inc.
- Fieldcore Service Solutions LLC
- GE Oil & Gas Puerto Rico, Inc.

At December 31, 2018, tax years 2014 through 2018 of the Company remain subject to examination by the Puerto Rico taxing authorities.

(7) Pension Plan, Postretirement, and Postemployment Benefits (All Amounts in Thousands)

The Company accounts for its contributory defined-benefit pension plan in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General*. The ASC 715-20 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans, on a plan-by-plan basis, and recognition of changes in the funded status in the year in which the changes occur.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

The Company participates in a contributory defined-benefit pension plan (the Pension Plan) covering the Company's employees and other General Electric employees in Puerto Rico (commonly known as the GE Companies in Puerto Rico). The Pension Plan has a December 31 measurement date. Benefits are based on years of service and the employees' earnings. The administration of the Pension Plan resides at another affiliated entity. The Company makes annual contributions to the Pension Plan in amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws, plus such additional amounts as the Company may determine to be appropriate. The Company accounts for the Pension Plan in a manner similar to a multiple-employer plan. The total pension expense attributable to the Company for the year ended December 31, 2018 amounted to approximately \$3,809. At December 31, 2018, the Company had an accrual for pension liability amounting to \$16,277.

In addition, the Company and the other GE Companies in Puerto Rico provide postretirement medical and life insurance benefits (the Postretirement Plan and, collectively, the Plans) to full-time employees who meet minimum age and service requirements. The Postretirement Plan is contributory, with retiree contributions adjusted annually, and contains other cost sharing features, such as deductibles and coinsurance. The accounting for the Postretirement Plan anticipates future cost sharing changes to the written plan that are consistent with the expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. These benefits are accrued but are not funded annually. The total postretirement curtailment benefit, net of expense allocated to the Company for the year ended December 31, 2018 amounted to \$(3,844). At December 31, 2018, the Company had an accrual for medical and life insurance benefits amounting to \$7,507.

The following table sets forth the benefit obligation, fair value of plan assets, and funded status of the Plans at December 31, 2018:

	Pension benefits	Postretirement benefit	
		Medical	Life insurance
Projected benefit obligation at December 31	\$ 241,664	\$ 2,890	\$ 7,925
Fair value of plan assets at December 31	187,863	-	-
Unfunded status	<u>\$ 53,801</u>	<u>\$ 2,890</u>	<u>\$ 7,925</u>

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Change in benefit obligation:			
Projected benefit obligation at beginning of year	\$ 279,521	7,053	9,920
Service cost	2,096	275	107
Interest cost	9,615	240	335
Plan participants' contributions	414	—	—
Actuarial loss	(21,585)	(818)	(1,152)
Benefits paid	(19,845)	(706)	(223)
Curtailments	(8,960)	(3,154)	(1,062)
Special/contractual termination benefits	408	—	—
Projected benefit obligation at end of year	\$ 241,664	2,890	7,925
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 213,030	—	—
Actual return on assets	(11,490)	—	—
Employer contributions	5,754	—	—
Plan participants' contributions	414	—	—
Benefits paid	(19,845)	—	—
Fair value of plan assets at end of year	\$ 187,863	—	—

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Components of net periodic benefit cost:			
Service cost	\$ 2,096	275	107
Interest cost	9,615	240	335
Expected return on assets	(14,003)	—	—
Net prior service cost amortization	6	—	—
Net loss/(gain) amortization	6,489	(212)	(245)
Net periodic benefit cost	4,203	303	197

Amounts recognized by the GE Companies in Puerto Rico in accumulated other comprehensive income in 2018 consist of the following:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Net prior service cost/(credit)	\$ —	—	—
Net loss (gain)	95,111	(3,431)	(5,229)
	\$ 95,111	(3,431)	(5,229)

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

The accumulated benefit obligation for the Pension Plan was \$239,911 at December 31, 2018. The amounts recognized by the GE Companies in Puerto Rico as of December 31, 2018 consist of the following:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Net pension and postretirement liability:			
Current liability	\$ —	(597)	(482)
Noncurrent liability	(53,801)	(2,293)	(7,443)
Net pension and postretirement liability	<u>\$ (53,801)</u>	<u>(2,890)</u>	<u>(7,925)</u>

The amortization of net loss and prior service cost for the contributory defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$6,829. The aggregate amortization of the net gain for the postretirement benefits medical and life insurance plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is (\$843).

Weighted average assumptions used to determine benefits obligation at December 31, 2018 is as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Discount rate	4.36 %	4.23 %	4.23 %
Rate of compensation	3.00	3.00	3.00
Current healthcare cost trend rate	N/A	7.00	N/A
Ultimate healthcare cost trend rate	N/A	5.00	N/A
Year of ultimate healthcare cost trend rate	N/A	2027	N/A

Weighted average assumptions used to determine net benefits cost for the year ended December 31, 2018 is as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Discount rate	3.65 %	3.58 %	3.58 %
Expected long-term rate of return on plan assets	6.75	N/A	N/A
Rate of compensation increase	3.00	3.00	3.00
Current healthcare cost trend rate	N/A	7.25	N/A
Ultimate healthcare cost trend rate	N/A	5.00	N/A
Year of ultimate healthcare cost trend rate	N/A	2027	N/A

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Assumed medical health care cost trend rates have a significant impact on the amounts reported for medical health care plans. A one-percentage point change in assumed medical health care cost trend rates would have the following effects as of December 31, 2018:

	One-percentage-point	
	Increase	Decrease
Effect on total of service cost and interest cost	\$ 571	466
Effect on accumulated postretirement benefit obligation	3,020	2,770

The GE Companies in Puerto Rico expect to make approximately \$4,450 for the contributory defined benefit pension plan during 2019. Additionally, the GE Companies in Puerto Rico expect to contribute during 2019 approximately \$609 to the postretirement medical plan and approximately \$492 to the postretirement life insurance plan. GE Companies in Puerto Rico fund retiree health benefits on a pay-as-you-go basis. GE Companies in Puerto Rico fund retiree life insurance trust at their discretion.

To determine the expected long-term rate of return on pension plan assets, the GE Companies in Puerto Rico consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The GE Companies in Puerto Rico apply an expected rate of return to a market-related value of assets, which reduces the underlying variability in assets to which the GE Companies in Puerto Rico apply that expected return.

The GE Companies in Puerto Rico amortize actuarial gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over a period no longer than the average future service of employees.

The pension plan assets are invested in the GE Pension Trust (the Trust) along with the assets of other GE affiliates pension plan assets.

The GE Pension Plan has a broadly diversified portfolio of investment in equities, fixed income, private securities, real estate, and hedge funds; these investments are both U.S. and non-U.S. in nature. As of December 31, 2018, no sector concentration of assets exceeds 15% of total GE Pension Plan Assets.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

The fair value of the pension plan investments is presented below (amount in millions):

Asset category:

Global securities	\$	6,015
Debt securities:		
Fixed income and cash investment funds		2,069
U.S. corporate (a)		8,734
Other debt securities (b)		5,264
Real estate		2,218
Private equities & other investments		557
		<u>24,857</u>
Investments measures at net asset value (NAV)		
Global securities		12,558
Debt securities		6,400
Real estate		1,261
Private equities & other investments		4,933
Total	\$	<u><u>50,009</u></u>

(a) Primarily represented investment-grade bonds of U.S. issuers from diverse industries.

(b) Primarily represented investments in residential and commercial mortgage backed securities, non-U.S. corporate and governmental bonds and U.S. government, federal agency, state and municipal debt.

Investments with a fair value of \$2,990 million were classified within Level 3. The remaining investments were substantially all considered Level 1 and 2. Assets that were measured at fair value using NAV as practical expedient were excluded from the fair value hierarchy.

Plan fiduciaries of the GE Pension Plan set investment policies and strategies for the GE Pension Trust and oversee its investment allocation, which includes selecting investment managers and setting long-term strategic targets. The primary strategic investment objectives are balancing investment risk and return and monitoring the plan's liquidity position in order to meet the near-term benefit payment and other cash needs. Target allocation percentages are established at an asset class level by plan fiduciaries. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range. According to statute, the aggregate holdings of all qualifying employer securities (e.g., GE common stock) and qualifying employer real property may not exceed 10% of the fair value of trust assets at the time of purchase. GE securities represented approximately 1% of the GE Pension Trust assets at year ended 2018.

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Estimated future benefit payments for the GE Companies in Puerto Rico Plans are as follows:

	Pension benefits	Postretirement benefits	
		Medical	Life insurance
Estimated future benefit payments:			
2019	\$ 14,499	609	492
2020	14,235	584	504
2021	14,019	501	500
2022	13,741	445	494
2023	13,690	353	488
2024–2028	69,854	509	2,384

The Company also participates in a 1165(e) Retirement Plan (the Plan), which covers all salaried employees and other GE employees in Puerto Rico after the date of hire. Under the provisions of the Plan, employees elect to contribute of their before-tax annual compensation and the Company matches 50% of the first 6% of the amount contributed by the employees up to a maximum \$15 in 2018.

On July 1, 2008, the Company adopted a 1165(e) Retirement Plan, which covers all hourly employees and other GE employees in Puerto Rico (Hourly Plan). Under the provisions of the Hourly Plan, employees are eligible to the plan after three months of the hire date and the Company matches 50% of the first 4% of the amount contributed by the employees up to a maximum of \$15 in 2018.

The Company may also make discretionary annual contributions to the Retirement Plans out of its operating income, as defined in the Salaries and the Hourly Plan. The amount of contributions expense recognized by the Company during the year ended December 31, 2018 amounted to approximately \$310.

(8) Hurricane Maria

On September 20, 2017, Hurricane Maria impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. The Company suffered substantial damages related to property losses and significant additional expenditures were incurred to ensure the continuing of its operations in the aftermath of the storm. Such expenditures included the acquisition and maintenance of back-up power generators, outsourcing of services, increased security, idle facilities and labor costs, repairs and clean-up costs.

Additional expenses incurred as a result of Hurricane Maria amounted to approximately \$12.8 million, of which \$8.7 million were recorded as part of general and administrative expenses for the year ended December 31, 2018. In addition, the Company experienced significant damages to its facilities, however, since the majority of the related assets were fully depreciated, recorded property losses amounted to only \$189,615 for the year ended December 31, 2018. Such losses were also included as part of general and administrative expenses in the accompanying statement of income of the discontinued operations.

The Company submitted an insurance claim for property losses, extra expenses and business interruption recoveries. On June 29, 2018, the Company's insurer approved a final proof loss claim of \$25,001,866, net of deductibles, as follows:

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Property damages	\$ 13,920,966
Business interruption	3,517,247
Incremental Expenses	7,563,653
	<u>\$ 25,001,866</u>

Prior to December 31, 2017, the Company received an advance on such insurance recoveries of \$5,000,000, which was recorded as a reduction of the related property losses and incremental expenses. During the year ended December 31, 2018, the remaining claim balance of \$20,001,866 was collected. Of this amount, \$8,637,177 were recorded as a reduction of the related property repairs and extra expenses while \$11,364,690 were recorded as other income, both amounts in the discontinued operations (see note 11).

(9) Contingencies

(a) *Environmental Remediation Costs*

The Company is involved in a remediation action to clean up hazardous wastes as required by federal and the Puerto Rico Commonwealth laws. Liabilities for remediation costs at the site are based on the Company's best estimate of undiscounted future costs, excluding possible insurance recoveries. When there appears to be a range of possible costs with equal likelihood, liabilities are based on the low end of such range. Uncertainties about the status of laws, regulations, technology, and information related to individual sites make it difficult to develop a meaningful estimate of the reasonably possible aggregate environmental remediation exposure. However, management is of the opinion that, even in the unlikely event that remediation costs amounted to the high end of the range of costs for each site, the resulting additional liability would not be material to the financial position, results of operations, or liquidity of the Company. As of December 31, 2018, the Company has accrued approximately \$1,431,000 for related future monitoring expenditures. An affiliate funded this charge.

(b) *Legal*

The Company is a defendant in legal actions arising in the ordinary course of business. Management, after consultation with its legal counselors, is of the opinion that the ultimate liability, if any, resulting from such pending legal actions would not be material in relation to the financial position, results of operations, or liquidity of the company.

(c) *Leases*

The Company leased certain manufacturing facilities under noncancelable operating leases that expired on December 31, 2018. Minimum lease payments during 2018 amounted to \$858,804. The lease contract applicable to the Company's manufacturing facility in Añasco, was amended for a term commencing January 1, 2019 and ending on December 31, 2019. The lease agreement includes four optional renewal periods of one year each at the prevailing lease rate charged by Landlord at time of the renewal for similar properties in the zone in which the leased premises are located. The total annual minimum lease payments for 2019 are \$193,587.

(10) Fair Value of Financial Instruments

The Company's significant financial instruments included cash and cash equivalents, accounts receivable, loans receivable from affiliate, accounts payable, and accrued expenses. At December 31, 2018, the

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

carrying value of most financial instruments approximated fair value since the amounts are expected to be collected or disbursed within one year. It is not practical to determine the fair value of the loans receivable from General Electric and affiliate as both are related-party transactions. However, management is of the opinion that such fair value approximates its carrying value due to its variable rate structure.

(11) Royalties

On May 7, 2012, GE Energy Management (GE Energy) signed a new strategic alliance with China XD Electric Co., Ltd. (XD Electric) in order to deliver a full line of electric transmission, distribution and grid automation solutions to customers and energy intensive instruments around the world. As part of the strategic alliance, GE Energy agreed to establish an automation joint venture (AJV) in China with XD Electric in order to offer customers secondary equipment products and localized grid automation solutions in China. The AJV will enable GE Energy to expand its access to the China Technological and Development segment by adapting GE Energy's technology to local market needs with the support of a strong regional primary equipment company. GE Energy will also sell a perpetual IP technology license of its universal relays at a fee to the AJV for the design and manufacture of automation products. The AJV's sole market is China. The AJV was formed in March 2013.

The technology transfer agreement between GE Energy and XD Electric provides for the transfer of certain GE Energy's technology and intellectual property (IP) related to specific secondary equipment products to the AJV in exchange for \$12 million in technology transfer fees to be paid as royalties by the AJV to GE Industrial of PR LLC (the Company). The technology agreement grants the rights to the AJV to use the technology and IP, as well as requires the Company to provide to the AJV certain technical assistance, support and training in connection with such transfer, and It also grants the Company and AJV the rights to certain improvements, modifications, enhancements, adaptations, derivative works and changes to the technology and IP created, developed or conceived after the date of the technology agreement. The technology agreement outlines provisions of what will be transferred, when it will be performed and through what means. The Company received \$600,000 in royalty payment during the year ended December 31, 2018.

(12) Discontinued Operations

On September 24, 2017, the General Electric Company reached an agreement with ABB Verwaltungs Ltd. for the sale of all equity interests and certain assets and liabilities of the Industrial Solutions business for \$2,600 million. The sale included certain assets and liabilities of the Company's Industrial Solutions division that was engaged in the manufacturing of electrical products through a number of manufacturing facilities located at different municipalities of Puerto Rico. The effective date of the transaction was June 30, 2018. The net cash proceeds received in the sale of the Industrial Solutions division was \$195.8 million. The Company accounted for the sale in accordance with ASC Topic 205-20, Presentation of Financial Statements - Discontinued Operations (ASC 205-20). The total income from discontinued operations related to the appliances export division consisted of the following:

GE INDUSTRIAL OF PR, LLC

Notes to Financial Statements

December 31, 2018

Net sales	\$ 96,086,956
Cost of Goods Sold	<u>68,630,713</u>
Gross Profit	27,456,243
General and administrative expenses	<u>14,879,727</u>
Operating Profit	12,576,516
Interest and Other Income	14,414,869
Gain on sale of business	<u>132,022,563</u>
Income from discontinued operations before taxes	159,013,948
Income Tax Expense	<u>4,701,567</u>
Income from discontinued operations	\$ <u>154,312,381</u>

Net cash flows from operating activities provided by the discontinued operations during 2018 amounted to \$37,227,765.

(13) Subsequent Events

The Company has evaluated all subsequent events through September 20, 2019, the date the financial statements were available to be issued.